

NFA DISCUSSION:

The Debt Ceiling's Disruptive Impact: Evidence from Many Markets
(Cassidy & Mirani)

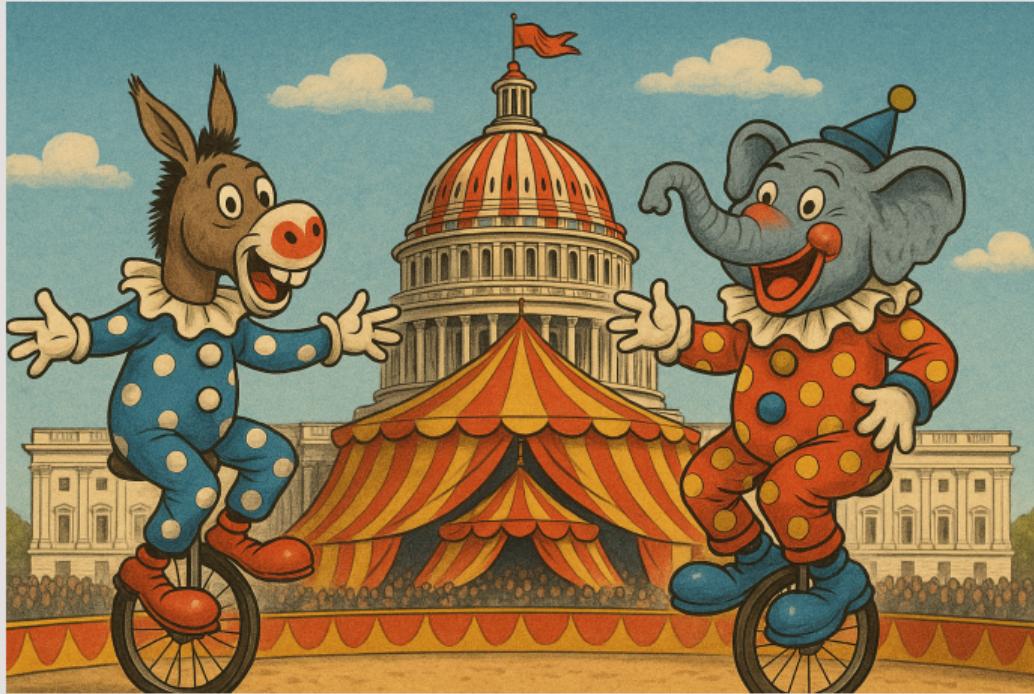
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THE PAPER IN A NUTSHELL

The US political circus as an instrument for Tbill issuance



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$$\text{Debt Issuance}_t = \Delta TBills_t + \Delta TBonds_t$$

The treasury committed to steady and predictable bond issuance
→ on the short run, $\Delta TBonds_t$ is **fixed**.

When the debt ceiling is binding, we must have

$$\text{Debt Issuance}_t = 0 \Leftrightarrow \Delta TBills_t = -\Delta TBonds_t$$

THE PAPER IN A NUTSHELL

The US political circus as an instrument for Tbill issuance

Very strong instrument. Pass-through near 1, high R², large F-test.

Dependent Variables:	Bill Supply (\$Billions)			Bill-to-GDP Ratio (%)		
Model:	(1)	(2)	(3)	(4)	(5)	(6)
<i>Variables</i>						
Debt Ceiling Instrument	-0.8246*** (-12.36)			-0.0042*** (-14.23)		
End-of-Suspension Instrument		-0.6283*** (-6.145)			-0.0035*** (-7.944)	
Post-Raise/Suspension Instrument			-1.348*** (-9.595)			-0.0048*** (-12.29)
<i>Fixed-Effects</i>						
Episode	Yes	Yes	Yes	Yes	Yes	Yes
<i>Fit Statistics</i>						
Observations	512	258	214	512	258	214
R ²	0.99571	0.99670	0.99469	0.99163	0.99456	0.99161
Within R ²	0.51889	0.41747	0.83340	0.55483	0.47165	0.80474
F-test	11,855.1	11,096.3	4,985.3	6,050.9	6,716.4	3,145.0

Newey-West (L=5) co-variance matrix, t-stats in parentheses

Signif. Codes: ***: 0.01, **: 0.05, *: 0.1

INELASTIC DEMAND FOR MONEY-LIKE ASSETS

Research Question: Can we test the preferred-habitat hypothesis for money-like assets

Exogenous variation in bill supply exogenously shifts the composition, duration and availability of money-like assets.

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- **Dealer holdings:** Natural arbitrageurs. Dealers build up stock of bills before a debt ceiling episode.
- **Across the yield curve:** For a decrease in bill supply, notes and bonds "convenience premia" decrease. Mechanical? Might also reflect duration management?

WHY SHOULD I CARE?

- **Evidence of preferred habitat:** Even after controlling for both bill-specific specific and aggregate default risk, VIX, etc. Big win for the inelastic demand hypothesis.
- **Demand system estimation:** Provides a good instrument for the yield of short-term money-like securities.
- **Systemic fragility:** Political brinkmanship has real effects on the financial system.

CONCERN: CONVENIENCE YIELDS

Convenience yields built as in Fleckenstein and Longstaff (2024) from OIS on repo rates:

- Take a risky bond paying coupon c at time $t_0 < t_1 < \dots < T$
- Buy a CDS at spread s
- Build a discount factor from OIS on repo rates $D_{OIS}(t)$

The price of the synthetic risk-free bundle, $R(c - s; T)$, is the fair price of the bond.

$$P(R(c - s; T)) = \sum_{t_0}^T (c - s) D_{OIS}(t_k) \Pr(\tau > t_k) + 1 + \sum_{k=0}^{N-1} (D_{OIS}(t_{k+1}) - D_{OIS}(t_k)) \Pr(\tau > t_k)$$

$$\text{Premium}_{Bond} = YTM_{OIS}(R(c - s; T)) - YTM(Bond)$$

But repo rates are directly influenced by bill scarcity as MMF substitute into repo.
(Evidence in own appendix and in Dao, Tan, and Zhou (2025), Stein and Wallen (2023)).

\uparrow Bills \rightarrow \uparrow Repo rate \rightarrow $\downarrow D_{OIS}$ \rightarrow $\downarrow P(R(c - s; T))$ \rightarrow $\uparrow YTM_{OIS}(R(c - s; T))$ \rightarrow \uparrow Premium

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$\uparrow \text{Bills} \rightarrow \uparrow \text{Repo rate} \rightarrow \downarrow D_{OIS} \rightarrow \downarrow P(R(c - s; T)) \rightarrow \uparrow YTM_{OIS}(R(c - s; T)) \rightarrow \uparrow \text{Premium}$

$$\uparrow \text{Premium}_{Bond} = \uparrow YTM_{OIS}(R(c - s; T)) - YTM(Bond)$$

Maturity:	Convenience Premia (Basis Points)										
	All TBill	1-3M	3-6M	6-12M	1-2Y	2-3Y	3-5Y	5-7Y	7-10Y	10-20Y	20-30Y
Panel A: Combined Instrument											
Bill / GDP	-5.265** (-2.072)	-5.649** (-2.217)	-5.207* (-1.877)	-4.503** (-2.211)	0.0619 (0.0691)	1.058 (1.533)	1.752*** (2.743)	1.746*** (2.842)	1.461** (2.141)	1.284 (1.616)	2.177** (2.038)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Fixed Effects</i>											
Episode	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Fit Statistics</i>											
Observations	948	948	948	948	948	948	948	948	948	948	948
R ²	0.90703	0.89526	0.89214	0.94093	0.96145	0.96143	0.95242	0.94126	0.93833	0.87439	0.85200
Within R ²	0.67545	0.62564	0.68587	0.69958	0.71877	0.74934	0.78238	0.77044	0.69666	0.48517	0.31515
Panel B: Debt Ceiling Instrument (DCIV)											
Bill / GDP	-7.888*** (-3.386)	-9.520*** (-3.740)	-8.185*** (-3.236)	-3.677** (-2.114)	3.068*** (3.739)	5.282*** (4.235)	6.199*** (4.648)	6.628*** (4.911)	6.275*** (3.796)	4.697** (2.310)	6.911** (2.530)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Fixed Effects</i>											
Episode	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Fit Statistics</i>											
Observations	499	499	499	499	499	499	499	499	499	499	499
R ²	0.95654	0.94049	0.95362	0.97563	0.97612	0.96634	0.94853	0.91599	0.89586	0.79684	0.72996
Within R ²	0.85740	0.79839	0.87383	0.88484	0.83967	0.80167	0.80857	0.77607	0.66636	0.42307	0.25390

Newey-West ($L=5$) co-variance matrix, t-stats in parentheses

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SO MANY UNANSWERED QUESTIONS!

- Who drives the pass-through to other assets?

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- Who drives the pass-through to other assets? Likely not MMF (ONRRP).

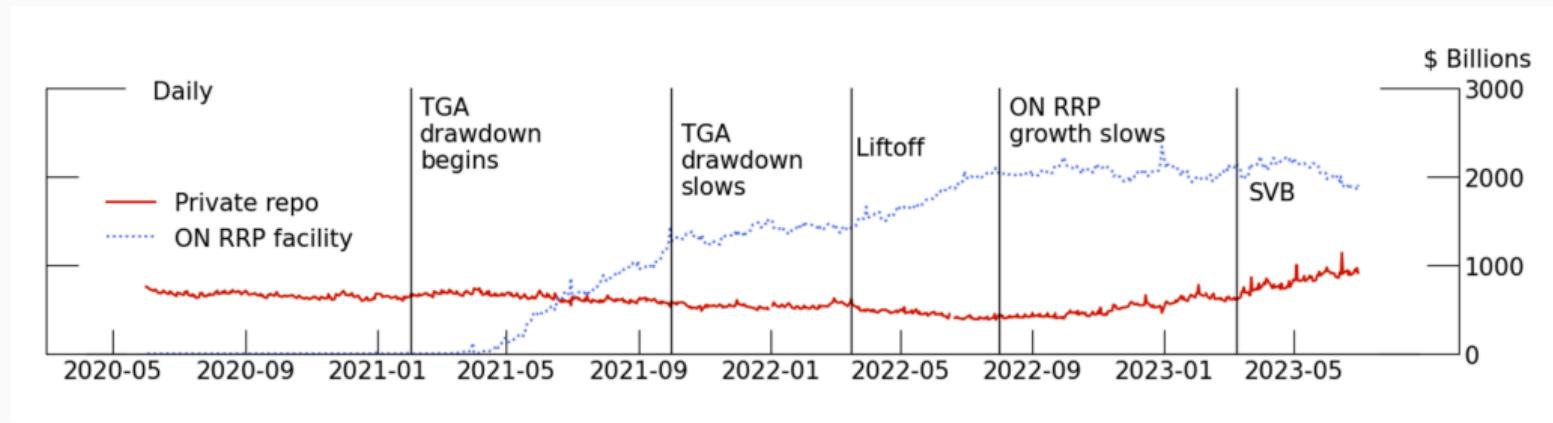
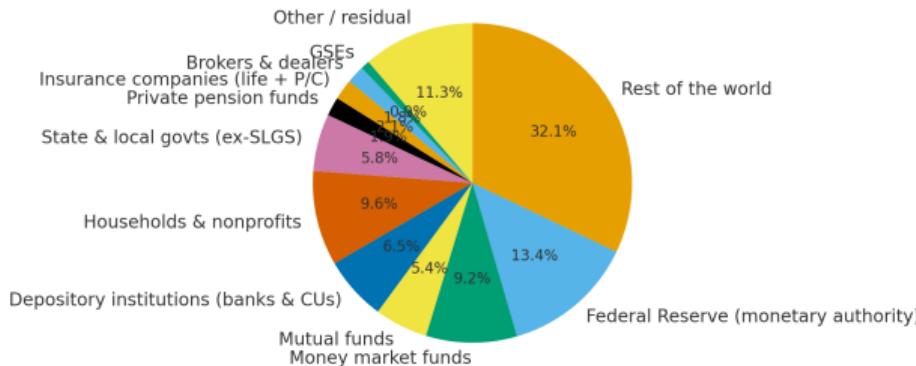


Figure: Source: Dec 15 2023 Fed Note

SO MANY UNANSWERED QUESTIONS!

- Who drives the pass-through to other assets?
- Foreign bond holders? Insurers? Chartered banks?

Holders of U.S. Marketable Treasuries — Share of Outstanding (2025 Q2)
Source: Fed Z.1 (Table L.210)



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- Did larger amounts of excess central bank reserves dampen the impact on the repo market by providing space on ONRRP?
- LT yields for IG and Treasuries: What drives these weird results?

CONCLUDING REMARKS

Key takeaway: A shift in bill supply and maturity composition of US government debt has large pricing implications.

- Looking forward to seeing the paper develop.
- I will be borrowing your instrument, thank you very much.
- Another paper entirely: This touches on the role of the FED as a provider of liquidity/money-likeness at the taxpayer's cost.

A GREAT READ!